

Message Text

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TO AMCONSUL CALGARY IMMEDIATE

AMCONSUL HALIFAX

AMCONSUL MONTREAL

AMEMBASSY OTTAWA

AMCONSUL QUEBEC

AMCONSUL ST JOHNS

AMCONSUL TORONTO

AMCONSUL VANCOUVER

AMCONSUL WINNIPEG

UNCLAS STATE 105345

E.O. 11652: N/A

TAGS: ENRG, CA, US

SUBJECT: NATURAL GAS EXPORT PRICE INCREASE

DEPARTMENT USING FOLLOWING GUIDANCE FOR PRESS INQUIRIES

ON SUBJECT:

BEGIN QUOTE

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Q. DOES THE US PLAN TO TAKE ANY ACTION IN RESPONSE TO THE CANADIAN INCREASE IN EXPORT PRICES FOR NATURAL GAS?

A. WHEN WE FIRST LEARNED OF THE IMPENDING INCREASE THROUGH PRESS REPORTS IN EARLY APRIL, WE REQUESTED CONSULTATIONS WITH THE CANADIAN GOVERNMENT. DURING THESE CONSULTATIONS ON APRIL 22 THE US POSITION WAS EXPLAINED IN DETAIL. WE UNDERSTAND THE CANADIAN GOVERNMENT CONSIDERED THE ARGUMENTS MADE IN THESE CONSULTATIONS IN MAKING ITS DECISION.

THIS ACTION BY CANADA EMPHASIZES ONCE AGAIN THE URGENT NEED FOR A US NATIONAL ENERGY POLICY THAT WILL PERMIT US TO MOVE FORWARD RAPIDLY WITH DEVELOPMENT OF OUR DOMESTIC ENERGY RESOURCES TO REDUCE OUR DEPENDENCE ON FOREIGN SUPPLIERS.

Q. THE US HAS ARGUED FOR DEREGULATION OF GAS PRICES TO PERMIT THEM TO GO TO COMMODITY VALUE. WHY ARE YOU OBJECTING TO CANADA'S ACTION?

A. WE UNDERSTAND THE DESIRE OF THE CANADIAN GOVERNMENT TO SEE GAS PRICES MOVE TO COMMODITY VALUE OVER A REASONABLE PERIOD OF TIME. HOWEVER, THUS FAR ONLY THE EXPORT PRICE HAS BEEN RAISED. THE IMPACT ON US CONSUMERS HAS BEEN SERIOUS. THERE HAS NOT YET BEEN A PARALLEL INCREASE IN THE COST OF GAS TO DOMESTIC CUSTOMERS IN CANADA. THIS HAS RESULTED IN INCREASED DISCRIMINATION AGAINST THE US.

Q. CAN YOU TELL US WHAT THE US REQUESTED THE CANADIAN GOVERNMENT TO DO DURING THE CONSULTATIONS IN APRIL?

A. WE NOTED THAT THE PROPOSED INCREASE WOULD RESULT IN A TOTAL PRICE INCREASE OF MORE THAN 500 SINCE 1973. WE POINTED OUT THAT CONSUMERS IN THE US WERE BEING GIVEN VERY LITTLE TIME TO ADJUST TO THESE VERY LARGE PRICE INCREASES. WE ASKED THAT FURTHER INCREASES BE PHASED IN OVER A REASONABLE PERIOD OF TIME. ALTHOUGH WE HAD BEEN ASSURED BY THE CANADIAN GOVERNMENT AT THE TIME THE UNCLASSIFIED

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LAST INCREASE WAS ANNOUNCED THAT CANADIAN DOMESTIC PRICES WOULD ALSO BE RAISED, NO ACTION ON THIS HAS YET BEEN TAKEN. WE THEREFORE REQUESTED THAT FURTHER INCREASES IN EXPORT PRICES BE LINKED TO INCREASES IN CANADIAN DOMESTIC PRICES.

Q. WHAT EFFECT WILL THIS INCREASE HAVE ON US GAS PRICES?

A. NATIONALLY, IT WILL INCREASE THE AVERAGE PRICE OF ALL GAS CONSUMED IN THE US BY ABOUT 7 CENTS PER MCF, ALTHOUGH CANADIAN GAS CONSTITUTES ONLY 4.5 OF TOTAL US CONSUMPTION. MORE IMPORTANT, HOWEVER, IS THE REGIONAL IMPACT IN AREAS WHERE CANADIAN IMPORTS ARE A SUBSTANTIAL PROPORTION OF GAS CONSUMPTION--THE PACIFIC NORTHWEST, NORTHERN CALIFORNIA AND CERTAIN AREAS IN THE MIDWEST AND NEW ENGLAND. THE IMPACT HERE WILL BE MORE SEVERE. IN VERMONT, FOR EXAMPLE, WHERE GAS IMPORTS FROM CANADA CONSTITUTE ALMOST 100 OF GAS CONSUMPTION, THE CANADIAN PRICE INCREASE WILL INCREASE THE COST OF GAS BY ALMOST 60 PERCENT.

Q. ARE FURTHER PRICE INCREASES TO BE EXPECTED?

A. AS THE CANADIAN ENERGY MINISTER MADE CLEAR IN HIS STATEMENT, CANADA INTENDS TO INCREASE EXPORT PRICES TO EQUIVALENCE WITH THE COST OF ALTERNATIVE ENERGY SOURCES.

OF EQUAL IMPORTANCE, IN VIEW OF THE STUDY BY THE CANADIAN NATIONAL ENERGY BOARD OF THE SUPPLY AND DELIVERABILITY OF GAS, IS CONTINUING SUPPLY UNDER EXISTING CONTRACTS. IN RECENT DISCUSSIONS WITH CANADA, INCLUDING THE CONSULTATIONS ON APRIL 22, WE HAVE MADE CLEAR THAT WE EXPECT TO HAVE THE OPPORTUNITY FOR FULL CONSULTATIONS WITH CANADA ON THIS SUBJECT. END QUOTE. KISSINGER

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